

**STATE BOARD OF ACCOUNTS  
302 West Washington Street  
Room E418  
INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT  
OF  
THE STATE LOTTERY COMMISSION OF INDIANA  
July 1, 2005 to June 30, 2006



**FILED**  
08/20/2007



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#### AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	Esther Q. Schneider Kathryn Densborn	07-01-05 to 12-06-06 12-07-06 to 01-11-09
Chairman of Commission	Jean Northenor	07-01-05 to 06-30-08



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

## INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE STATE LOTTERY COMMISSION OF INDIANA

We have reviewed the compliance with laws and regulation of The State Lottery Commission of Indiana for the period of July 1, 2005 to June 30, 2006. The State Lottery Commission of Indiana's management is responsible for the compliance with laws and regulations.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

The financial statements of The State Lottery Commission of Indiana for the period July 1, 2005 to June 30, 2006 were audited by other auditors. This financial statement report is on file in our office as a public record.

Based on our review, nothing came to our attention that caused us to believe that laws and regulations of The State Lottery Commission of Indiana are not in all material respects in conformity with the criteria set forth in the Indiana Code and policies and procedures established by The State Lottery Commission of Indiana, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

April 12, 2007

## THE STATE LOTTERY COMMISSION OF INDIANA REVIEW COMMENTS

### INAPPROPRIATE USE OF LOTTERY FUNDS

During our review of the State Lottery Commission of Indiana (Commission), we found numerous payments for items that are considered personal in nature and an inappropriate use of lottery funds.

#### Meals

The Commission paid for lunches and dinners that appeared to be attended by only Commission employees who were not in travel status. Some of these meals may have been attended by Commission vendors or retailers but documentation did not indicate the attendees. Meals for Commission employees not in travel status are considered personal in nature.

Documentation of attendees should be provided with all meal purchases to support the business nature of the meals.

#### Mementos and Flowers

The Commission paid for mementos and flowers for retirement, maternity, get well soon, and sympathy occasions. These purchases are considered personal in nature.

#### Inappropriate Party Purchase

The Commission paid \$525.00 for a disc jockey at a party attended only by Commission sales staff. This expenditure is a questionable use of Lottery funds.

Lottery funds should not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the Commission.

### DONATIONS

The Commission made two \$5,000 donations to the Richard Lugar's "Excellence in Public Service Series." The Commission also paid \$130 for employees to attend the "Excellence in Public Service Series" lunch.

The "Excellence in Public Service Series" mission is "to increase the number and influence of Hoosier Republican women in elected and appointed governmental and political positions at the local, state and federal levels."

THE STATE LOTTERY COMMISSION OF INDIANA  
REVIEW COMMENTS  
(Continued)

LACK OF TICKET ACCOUNTABILITY

The Commission purchased some of its advertising through sponsored events. As part of the sponsorship packages the Commission often received tickets and other perks related to the sponsored events. They also purchased Pacer season tickets. The Commission could not provide adequate accountability for the distribution of all the perks and tickets received.

All perks and tickets received should be properly accounted for to ensure that Commission employees did not personally benefit from these items. Tickets or other perks obtained from purchases with Lottery funds and used by Commission employees may be considered additional compensation and/or an ethics violation.

65 IAC 1-4-3 (b) states: "A member, officer, or employee shall not accept any form of compensation other than from the commission for any services rendered as part of the member, officer, or employee's official duties for the commission."

65 IAC 1-4-5 (a) states: "Members, officers and employees shall not directly or indirectly request or accept any gift, favor, service, loan, or entertainment for themselves or others under circumstances that might reasonably be construed to influence the performance of their official duties for the commission."

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations.

ATTENDANCE REPORTS

We observed that employee attendance reports were frequently signed and dated prior to the last day worked.

Employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period.

THE STATE LOTTERY COMMISSION OF INDIANA  
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2007, with Esther Q. Schneider, former Director. The official response has been made a part of this report and may be found on page 7.

The contents of this report were discussed on April 23, 2007, with Kathryn Densborn, Director; W. Edward Benton, Chief Financial Officer; Tim Kuehr, Controller; and Carrie Stroud, Internal Auditor. The official response has been made a part of this report and may be found on pages 8 through 10.



26 July 2007

TO: State Board of Accounts

FR: Esther Q. Schneider  
Hoosier Lottery Executive Director  
January 2005 – January 2007

RE: Response to the State Board of Accounts' Hoosier Lottery 2005-06 Audit

The Hoosier Lottery has conducted outside financial audits since its inception in 1989. The Legislature took action after a 2004 internal security breach allowed the disclosure of the location of a winning \$1 million scratch-off ticket. Prior to legislative action, the Lottery, being a quasi state agency, was not subject to State Board of Accounts' audit until now. Since that action in 2005, State Board of Accounts audits have been required and have been performed.

I firmly believe that such audits serve the best interests of the public, helping to create the transparency of all Hoosier Lottery operations. The findings attached clearly indicate that there are compliance rules and procedures that have not been followed and that corrective action needs to be taken immediately, up to and including the training of all Hoosier Lottery staff on all applicable Indiana State rules for operation.

Since its inception more than 17 years ago, the Lottery has had a minimum of one attorney on staff at all times as well as an internal auditor. None of the stated infractions has ever been identified as being illegal practices and/or areas requiring greater disclosure. Upon my arrival in January of 2005, I noticed a lack of documentation in many areas of the Lottery and implemented more stringent reporting practices. However, this report clearly indicates a serious need for compliance training in all departments of the Lottery. As further evidence for the need for compliance training, the Lottery had utilized retailers' social security numbers for 17 years as a means to conduct background checks for Lottery retailer licenses. At no time has the Hoosier Lottery had statutory authority to mandate that Hoosier Lottery retail applicants supply their social security numbers. Yet, this illegal practice was identified only after changes to the retailer license application were requested and the Indiana State Attorney Generals Office began serving as the Lottery's counsel in early 2006.

Given that the Hoosier Lottery is a quasi state agency and operates unlike any other state agency, I believe it would be most helpful if the State Board of Accounts were to conduct compliance training, requiring the participation of key Lottery staff. This training should include the review of all of the rules, policies and procedures that apply specifically to the Hoosier Lottery.

In closing, I believe that the Hoosier Lottery should continue to conduct various and regular audits in all departments as this will help to strengthen and improve the Hoosier Lottery's credibility with the players, the Indiana Legislature and the public.

# HOOSIER LOTTERY

June 27, 2007

Bruce A. Hartman, State Examiner  
Indiana State Board of Accounts  
302 West Washington Street  
4<sup>th</sup> Floor, Room E418  
Indianapolis, IN 46204-2765

Dear State Examiner Hartman:

Please see the attached responses to the revised audit review comments by the Indiana State Board of Accounts Auditors. Should you have any questions or need additional clarification, I can be reached at 317-264-4961 or [ebenton@hoosierlottery.com](mailto:ebenton@hoosierlottery.com).

Sincerely,



W. Edward Benton  
Chief Financial Officer

Encs.

cc: Al Marshall, State Board of Accounts  
Kathryn Densborn, Executive Director, Hoosier Lottery  
Tim Kuehr, Controller, Hoosier Lottery  
Carrie Stroud, Internal Auditor, Hoosier Lottery

## **THE STATE LOTTERY COMMISSION OF INDIANA**

Responses to the audit review comments as  
submitted by The Indiana State Board of Accounts

**Revised for updated comments received 6-27-07**

### **INAPPROPRIATE USE OF LOTTERY FUNDS:**

The State Lottery Commission of Indiana was established as a body politic and corporate separate from the State of Indiana. The Indiana State Lottery Act recognizes that "the policies and procedures appropriate for the performance of other governmental functions are not necessarily appropriate for the operation of a lottery." Ind. Code 4-30-1-2 (2). The Lottery is directed to "function as much as possible as an entrepreneurial business enterprise." Ind. Code 4-30-1-2 (1).

#### **Meals:**

The meals identified are infrequent and of a normal business nature. Expense vouchers for meals have listed the persons at such lunches or dinners but frequently did not further identify who these people represented. Our expense reimbursement policy now requires that we identify the persons attending such meals and the company or internal department which they represent. Lottery personnel attending such business lunches or dinners may not always be in travel status but are persons who would be expected to attend under normal business conditions and such expenses would normally be reimbursed by a business enterprise.

#### **Mementos and Flowers:**

Payments for mementos and flowers are both closely monitored and minimal. We feel that paying for flowers for bereavement or small mementos for retirement constitute both normal and good business practices. We feel that these small expenditures fall under both the aforementioned Indiana Lottery Code and under the Lottery's administrative code that authorizes the Director to exercise authority and powers that are customarily exercised under Indiana law by the chief executive and operational officer of an entrepreneurial business enterprise.

**Inappropriate Party Purchase:**

The Hoosier Lottery sales staff is essential to generating revenue. The Hoosier lottery, as other sales oriented businesses, holds regular sales meetings and has a sales incentive plan. The specific instance mentioned here was for an evening function following our annual sales conference. We feel this small expenditure is of a sales incentive nature and is in line with building morale and camaraderie within our diverse sales force. We certainly do not agree that it is a questionable use of lottery funds or that it does not relate to functions and purposes of the Commission.

**LACK OF TICKET ACCOUNTABILITY:**

Earlier this year a new policy was instituted whereby all perks or tickets from sponsorships are delivered to and controlled by one person who records receipt and disbursement of such tickets. Our Internal Auditor will monitor adherence to such policy. Previously, such tickets were received and distributed by the various departments such as Sales, Marketing or Public Relations.

**ATTENDANCE REPORTS:**

Exempt lottery employees are only required to submit attendance reports when they have used vacation or personal time off. Occasionally, a report will be signed and turned in prior to the end of a pay period when the employee knows that they will be out on vacation or personal time on the day that such report is due. In other instances field associates may submit their reports on a Thursday evening or Friday morning of a reporting period to facilitate our payroll system reporting. When someone does not work on the particular Friday, the supervisor will call and fax a new report. We are working with our payroll department and payroll processor to change the reporting time so that the reports may be submitted on Mondays.